

## Message Text

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ACTION TRSE-00

INFO OCT-01 NEA-09 ISO-00 EB-07 L-02 COME-00 AGR-05 /024 W

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P R 180858Z APR 75

FM AMEMBASSY COLOMBO

TO AMCONSUL BOMBAY PRIORITY

AMCONSUL MADRAS PRIORITY

INFO SECSTATE WASHDC 2585

LIMITED OFFICIAL USE COLOMBO 1220

E.O. 11652 N/A

TAGS: OVIP (SIMON, WILLIAM E.)

SUBJ: SECRETARY SIMON'S VISIT: BACKGROUND MATERIAL

1. SUMMARY: WE HAVE RECEIVED TWO SETS OF STATE BRIEFING PAPERS WHICH WE ASSUME PROVIDE BASIC BACKGROUND INFORMATION FOR SECRETARY'S VISIT. FIRST IS PACKAGE PREPARED FOR USADB DELEGATION, APPARENTLY IN EARLY MARCH. IT HAS COVERING SUMMARY WITH ATTACHEMENTS ON CURRENT ECONOMIC AND POLITICAL SITUATIONS. SECOND IS EARLY APRIL PAPER ENTITLED "SECRETARY SIMON'S VISIT TO SRI LANKA." FOLLOWING AMENDS AND UPDATES BACKGROUND INFORMATION IN FIRST PACKAGE. WE HAVE NOTHING TO ADD TO BACKGROUND IN SECOND PACKAGE. SPETEL GIVES OUR COMMENT ON TALKING POINTS FOR MEETINGS WITH PM AND WITH GSL OFFICIALS. END SUMMARY.

2. IN EARLY MARCH BRIEFING PACKAGE: "I, HIGHLIGHTS, KEY STATISTICS": FOLLOWING ADDITIONAL DATA POINTS UP SRI LANKA'S EXTREMELY DISTRESSED ECONOMIC SITUATION AND OUTLOOK: TRADE: ACCORDING IBRD FEBRUARY 20 REPORT, CY (ALSO FY) 1973 MET CURRENT ACCOUNT DEFICIT OF MINUS U.S. \$38 MILLION INCREASED IN CY/FY 1974 TO MINUS U.S. \$328 MILLION. IN CY 1974, TEA, RUBBER, COCONUT EXPRTS EARNED ABOUT 73 PERCENT OF FOREIGN EXCHANGE WHILE FOOD, PETROLEUM, FERTILIZE USED 84 PERCENT OF FOREIGN EXCHANGE EARNED. (LATTER FIGURE IN 1971-72 WAS 48 PERCENT). TERMS OF TRADE HAVE DECLINED FROM 93 IN 1968 TO 60 IN 1973 AND MAY HAVE DETERIORATED 35 PERCENT IN 1974.

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RESOURCE GAP: FOR CY/FY 1975, IBRD ESTIMATES ABOUT

\$300 MN. NET CAPITAL INFLOW REQUIRED TO COVER CURRENT ACCOUNT DEFICIT. AFTER ALL ANTICIPATED AID AND CREDITS CONSIDERED, ABOUT \$200 ADDITIONAL FOREIGN EXCHANGE WILL BE REQUIRED. DEBT: CY/FY 1974 DEBT SERVICE RATION OF UNDER 13 PERCENT PROJECTED TO WORSEN TO ABOUT 19 PERCENT IN CY/FY1975 LARGELY BECAUSE OF MUCH INCREASED SHORT TERM BORROWING.

3. "CURRENT ECONOMIC SITUATION": (PARAGRAPH ONE): MAJOR ADDITIONAL FACTOR IN PLANTATION INDUSTRY DECLINING PRODUCTION IS OWNER/INVESTOR UNCERTAINTY BECAUSE OF LAND REFORM EXPROPRIATIONS OF PROPRIETARY ESTATES IN 1973-74 AND CONTINUING GSL POLICY OF SELECTIVELY NATIONALIZING FOREIGN CORPORATELY OWNED ESTATES. AT BOTTOM OF PAGE TWO, STATE "--BUT GOVERNMENT HAS NOT MOVED AGAINST THESE ESTATES" SHOULD BE DELETED AND CHANGED AS FOLLOWS: "IN EARLY APRIL GSL INITIATED NATIONALIZATION OF PART OF MAJOR ESTATE GROUP BECAUSE GSL OBJECTS TO OFFSHORE TRANSFERS OF GROUP'S OWNERSHIP WHICH REPORTEDLY HAPPENED IN JANUARY AND INVOLVED ARAB AND HONG KONG INTERESTS."

4. LANGUAGE CONCERNING ESSO'S OUTSTANDING CLAIM FOR NATIONALIZED PRODUCT HANDLING EQUIPMENT SHOULD READ AS FOLLOWS: "THOUGH MID-MARCH 1975 ESSO REPRESENTATIVES HAD TOLD EMBASSY NEGOTIATIONS WERE PROCEEDING SLOWLY BUT SATISFACTORILY. CEYLON PETROLEUM CORPORATION (CPC) CHAIRMAN ON MARCH 27 ASSURED EMBASSY OF INTENT TO EXPEDITE CLAIM SETTLEMENT. ESSO REPRESENTATIVE (LOCATED IN BOMBAY), HOWEVER, HAS RECENTLY WRITTEN EMBASSY THAT CPC IS STALLING AND REQUESTS FURTHER EMBASSY REPRESENTATION ON THEIR BEHALF. SINCE SRI LANKA RECEIVED PRESIDENTIAL SPECIAL CERTIFICATION AS POTENTIAL BENEFICIARY OF 1974 TRADE ACT GSP, BASED ON SATISFACTORY PROGRESS TOWARD ESSO CLAIM SETTLEMENT, THIS IS MATTER OF CONCERN. CLAIM IS VERY SMALL, HOWEVER, AND ESSO/ GSL DIFFERENCE SHOULD BE AMENDABLE TO SOLUTION. WE DO NOT RECOMMEND THAT SECRETARY OR PARTY RAISE THIS ISSUE BUT THEY SHOULD BE AWARE OF CURRENT BACKGROUND."  
VAN HOLLEN

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
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**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
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**Executive Order:** N/A  
**Errors:** N/A  
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**Office:** ACTION TRSE  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 2  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 14 JUL 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <14 JUL 2003 by KelleyW0>; APPROVED <15 JUL 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SECRETARY SIMON'S VISIT: BACKGROUND MATERIAL  
**TAGS:** OVIP, (SIMON, WILLIAM E)  
**To:** TRSY BOMBAY MADRAS  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006